



# Workshop Presentation

## February 28, 2006

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Prepared by  
Arkansas Universal Service Administrator  
Rhoads & Sinon Group LLC  
Regarding the Arkansas Universal Service Fund  
Administration

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# Agenda

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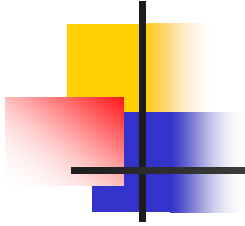
- History and Overview
- Support at the end of 2005
- Administration 2006
- Alternative Proposals
- Questions



# History and Overview

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- The AUSF was established in 1997 pursuant to the Telecommunications Regulatory Reform Act of 1997 ("Act 77").
- The Arkansas Public Service Commission adopted Universal Service Fund Rules on September 2, 1997 (97-041-R)

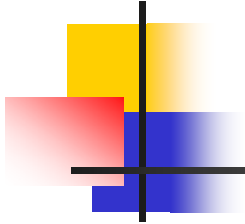


# History and Overview

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## The Arkansas Public Service Commission

- Selected NECA to be the first Administrator
- Established Docket No. 97-393-A  
for the receipt of all filings
- Selected R&S as Administrator effective  
January 1, 2004.



# History and Overview

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- The Administrator approved 22 requested increases to AUSF 2005 support levels in mid-year, resulting in:
  - Significant increase in the annual size of fund requirements;
  - Significant increase in the assessment rate for the 2<sup>nd</sup> 6 months of 2005.
- Challenges at Docket No. 05-099-U, were dismissed with prejudice.



# History and Overview

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- The Commission identified several issues regarding the AUSF reimbursement process for further consideration.
- R&S has addressed the FCC actions that impact AUSF support and implemented §23-17-404(c).



# History and Overview

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- The Duties of the Administrator include:
  - a determination of the sufficiency of the fund and
  - adjustments to the AUSF assessment level to assure such sufficiency.
- Continuing the significant mid-year 2005 increase in the assessment level would be excessive for 2006, and would result in significant over collection in 2006.
- The assessment level for 2006 changed from 1.70% to 1.50%.



# History and Overview

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## Commission Rule 2.02

- mirrors §4(e)(4)(A-C) of Act 77 of 1997,
- provides for the replacement of the then existing fund,
- provides for the payment of administrative costs, and
- provides for comparable rates between urban and rural areas (§4(e)(5) of Act 77 of 1997).





# History and Overview

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The determination of the 2006 assessment rate includes projections of:

- ***the amount of AUSF support required for 2006;***
- the assessable revenues for 2006;
- the administrative expenses for 2006; and
- a reasonable cash reserve



# History and Overview

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- Commission Rule 5.01 Reimbursement from the AUSF specifies
  - (A) the monthly distribution of support
  - (B) shall be calculated pursuant to §4(e)(4)(C) of Act 77 of 1997; and
  - (C) That neither rates nor earnings investigations are required.



# History and Overview

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- What is §(4)(e)(4)(C) about?
- §(4)(e)(4)(C) provides for the receipt of AUSF funds for the changes referred to in paragraphs
  - §(4)(e)(4)(A), or
  - §(4)(e)(4)(B).



# History and Overview

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- §(4)(e)(4)(C) also provides that –  
The AUSF administrator shall verify the calculations and accuracy of the net *{federal USF}* revenue reductions, based on a comparison between (i) the total annual *{federal USF}* revenue received from these sources by the eligible telecommunications carrier during the most recent twelve months preceding the required regulatory or statutory changes, and (ii) a reasonable projection of total test year annual *{federal USF}* revenue after such changes are implemented.



# History and Overview

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## OBSERVATION

- The federal support mechanisms are designed to provide revenues for the recovery of various costs. As costs change, revenues change.
- The provisions of Arkansas Act 77 only address changes in revenue levels, without regard to the underlying changes in cost recovery.



# History and Overview

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- §(4)(e)(4)(A) – In the event of an FCC order, rule or policy, pursuant to Section 254(a)(2) of the Federal Act, (47 USC 254(a)(2)) the effect of which is to change the federal universal service fund revenues to an incumbent local exchange carrier, the Commission **shall** either increase the rates for basic local exchange service or increase the incumbent local exchange carrier's recovery from the AUSF or a combination thereof to replace the reasonably projected change in revenues. . . .

*Note that the part (A) is **mandatory**.*

*Note also that the FCC rules as implemented have been transformed by the federal administrator into a set of equations that accept periodic data updates, which when applied to the equations result in **ongoing** periodic **changes** in the level of federal revenues.*



# History and Overview

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- §(4)(e)(4)(A) – In the event of an FCC order, rule or policy, pursuant to Section 254(a)(2) of the Federal Act, (47 USC 254(a)(2)) the effect of which is to change the federal universal service fund revenues of an incumbent local exchange carrier, the Commission shall either increase the rates for basic local exchange service or increase the incumbent local exchange carrier's recovery from the AUSF or a combination thereof to replace the reasonably projected change in revenues. . . .

*Note that the part (A) references **changes** in the level of federal support which are to be addressed by **increases** to replace reasonably projected **changes** in revenues.*



# History and Overview

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- **§(4)(e)(4)(B)** – Any **rural** telephone company, excluding Tier One Companies, that, as a result of changes caused by new or existing federal or state **regulatory or statutory directives**, experiences a change in intrastate or interstate switched access services revenues, or in net revenue received from intrastate Carrier Common Line Pool, interstate access charge pools, or the Arkansas IntraLATA Toll Pool, **shall** be allowed to recover such reductions from the AUSF or through modifications in rates applicable to basic local exchange service. The recovered amounts shall be limited to the net reduction in revenue from all sources of support listed in paragraphs (e)(4)(A) and (e)(4)(B) of this section.
- *Only applies to federally defined rural telephone companies.*
- *Although **A** refers to changes resulting from Orders/Rules/Policies, **B** refers more broadly to changes caused by regulatory or statutory directives applicable to:*
  - *Switched access service*
  - *Intrastate CCL pool*
  - *Intrastate access charge pool*
  - *Arkansas IntraLATA Toll pool*





# History and Overview

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- **§(4)(e)(4)(B)** – Any rural telephone company, excluding Tier One Companies, that, as a result of changes caused by new or existing federal or state regulatory or statutory directives, experiences a change in intrastate or interstate switched access services revenues, or in net revenue received from intrastate Carrier Common Line Pool, interstate access charge pools, or the Arkansas IntraLATA Toll Pool, shall be allowed to recover such reductions from the AUSF **or** through modifications in rates applicable to basic local exchange service. The recovered amounts shall be limited to the net reduction in revenue from all sources of support listed in paragraphs (e)(4)(A) and (e)(4)(B) of this section.
- *Changes that result in reductions shall be recovered via basic local exchange increases or AUSF.*
- *There is no express option for a combination of rate changes and AUSF.*

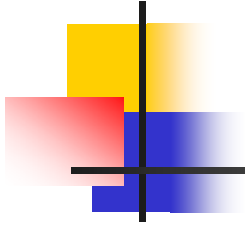


# History and Overview

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## OBSERVATION

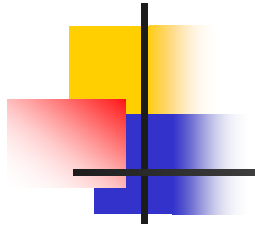
- Pursuant to the statute (Act 77), eligible companies are to be kept revenue neutral for changes resulting from federal Orders, Rules or Policies,
  - either by Commission action changing rates or
  - by support from the AUSF or
  - by a combination.
- Absent Commission action the Administrator is to adjust AUSF support.



# Support at the end of 2005

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- Access support
- Other support
- National Average Cost per Loop ("NACPL") support changes
- Corporate Operations Expense Limit ("Corp op cap") support changes



# Support at the end of 2005

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- How much of the 2005/2006 AUSF support is attributable to the changes in the federal USF since 1997?
- R&S reviewed the entries at docket no. 97-393-A and categorized AUSF support into four component parts.



# Support at the end of 2005

Below is an excerpt from a schedule which shows the breakdown of AUSF into the four parts identified on the previous slide. The numbers in the shaded columns are references to the docket entry numbers that are the source material. The column labeled 2005 support level is the annual level of AUSF support for the company identified to the left.

	2005 support level	2005 levels							
		access	entry no.	corp op cap	entry no.	NACPL	entry no.	othr	entry no.
Arkansas Tel Co	\$340,850	\$0	41			\$340,850	269		
Central AR Tel Coop	\$302,337	\$86,159	113			\$196,829	230	\$19,349	113
Century Tel of AR	\$1,139,145	\$0	41			\$1,139,145	275		
Century Tel of Mountain Home	\$1,325,000	\$0	41			\$1,325,000	278		
Century Tel of Redfield	\$811,396	\$697,228	119			\$114,168	282		



# Administration 2006

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- Use only public data
- Identify the support projection process that is used by federal regulators for 2006
- Identify the support projection process that was used by federal regulators for 1997
- Update the 1997 process with current data
- Contrast the results of the 2 processes



# Administration 2006

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## OBSERVATION

- Public data and federal support projections can be found in the annual NECA filings at the FCC.
- In 2001 the “RTF Order” rebased the federal support levels without caps or limits, then froze the NACPL and reimposed caps & limits.
- The federal changes effectively limited the data to be used for the projections and prescribed the rate of growth of the fund.



# The NACPL Freeze

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- According to section 36.622(c) of the Commission's rules, the national average unseparated loop cost is the greater of:
  - The sum of loop costs nationwide divided by the total number of working loops nationwide; for rural carriers it is frozen at \$240, or
  - An amount calculated to produce the maximum total USF allowable pursuant to §36.601(c).





# The NACPL Freeze

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- 36.631 Expense Adjustment describes the formula used to determine the amount of high-cost loop support would be available to a carrier by comparing the company loop cost to the NACPL.
- When the sum of all such comparisons exceeds the available funds, the NACPL is increased as needed to balance the sum of the differences. The fund cap is triggered.



# The NACPL Freeze

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- If the sum of actual high-cost loop support nationwide exceeds the indexed cap on the high-cost loop support fund, the national average loop cost is increased in order to ensure that the total amount of high-cost loop support distributed does not exceed the indexed cap.



# The NACPL Freeze

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- The FCC observed: If in a given year the actual national average loop cost (“it”) is significantly above \$240.00, support may be directed to certain rural carriers that otherwise would not be eligible for high-cost support. If on the other hand, “it” falls below \$240.00, support may be withheld from rural carriers that otherwise would be eligible for high-cost loop support under our current rules.



# The NACPL Freeze

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- The \$240.00 NACPL should only be used to determine support when the actual NACPL is below \$240.00.

# The NACPL Freeze

## example of incorrect use of \$240

Central Arkansas Telephone Coop	without NACPL Cap	with NACPL Cap
Calendar Year Data for	2003	2003
USF Data Collection Form	2004-1	2004-1
Calendar Year For USF Payments	2005	2005
Study Area USF Cost per Loop	\$749	\$749
National Average Cost Per Loop	\$240	\$306
115% of line 2	\$276	\$352
150% of line 2	\$360	\$459
Loop Cost in Excess fo 115% and less than 150%	\$84	\$107
Loop Cost in excess of 150%	\$389	\$291
Line 5 * 0.65	\$55	\$70
Line 6 * 0.75	\$292	\$218
Interstate Expense Adjustment / loop (ln 5 + ln 6)	\$347	\$288
Total USF Payments	\$1,156,374	\$959,545
Annual Cap on Corp. Operations Expense	\$0	\$0
Loss of USF High Cost Support Due to Cap		\$196,830
Study Area Loops	3336	3336

The \$196,830 highlighted above is the amount of AUSF claimed by the carrier for 2005. The same incorrect comparison can be demonstrated for each of the 22 carriers that claimed AUSF support increases for 2005.